



FEDERAL LOCALITY PAY – FAVORITISM IN THE SWAMP

“What if you could increase your salary from \$91,645 to \$129,250... [simply by relocating] to Washington, D.C.? A number of federal employees have taken this approach in their careers. Some even rent an apartment in the Washington area for several years to work while family members remain ‘at home’ in another state while the federal employee works in Washington (and returns home frequently) in order to earn a higher salary and greater future retirement benefits.”¹

BACKGROUND

Federal law effectively subsidizes civilian General Schedule (GS) government employees to live and work in large metropolitan areas.² The GS is the basic pay scale for 70% of federal civilian employees.³ In addition to automatic pay raises based on tenure, these white-collar federal bureaucrats⁴ are eligible for across-the-board base pay increases, performance-based pay raises, and applicable locality pay adjustments.⁵

Locality pay is the annual bonus most GS employees receive based on the geographical area they work in, which is recognized as a percentage increase in addition to their base pay. There are currently 54 GS locality areas across the United States [See Appendix below for a list of the locality pay areas for 2022].⁶

- **Locality pay was enacted to promote fairness but lacks credibility.**

- The Federal Employees Pay Comparability Act (FEPCA) of 1990 codified locality pay. Its intention was to ensure that federal employees living in certain areas across the country were paid comparable salaries to their nonfederal counterparts – i.e., state and local government and private sector employees – for similar work.
- FEPCA authorized two types of pay increases: the necessary funds through “across the board” pay raises and a new, supplemental locality pay adjustment to reduce the aforementioned pay disparity to a 5% threshold. Locality pay adjustments are determined by utilizing survey data of federal vs. nonfederal pay in localities and is awarded as a single percentage adjustment within each locality pay area.⁷
- The basis for locality pay rates has suffered a credibility gap for many years due to an unsubstantiated methodology the federal government utilizes to calculate rates.⁸
 - The Federal Salary Council (FSC) is directed under federal law to advise the President’s Pay Agent on locality pay adjustments.⁹ In 2019, the FSC reported the statistical modeling methodology was flawed, due to resource constraints that halved the survey sample size.¹⁰
 - A 2002 Office of Personnel Management (OPM) study found three factors that undermine FEPCA’s credibility. First, the law’s definition of comparability presumes a two-dimensional federal vs. nonfederal labor market that “bears little resemblance to the reality of labor markets.” Additionally, the unrealistic statistical methodology is resource prohibitive and requires “calculation of a single average pay gap in each locality pay area,” which disregards substantial differences between federal and nonfederal occupations and grades.¹¹
- According to law, the president has the authority to overrule FEPCA. However, presidents of all administrations have increased locality pay since 1994. Additionally, Congress and the president have regularly overridden the statutory formula for locality pay since that time due to lack of credibility in the

underlying methodology of “relying on one singular locality rate covering a locality pay area.”¹²

- Teleworking and remote work in the COVID-19 pandemic era allow federal employees to abuse locality pay rate benefits since locality pay is based on the physical location of the “official worksite” the federal employee reports to, rather than the location where they are physically conducting their duties.¹³ Therefore, a remote federal worker in a Washington, D.C. locality pay area could continue to benefit from higher rates even if they physically relocated to a completely different area during the pandemic.¹⁴
- **Locality pay rewards bureaucrats who live in large cities, and punishes the “Rest of the U.S.”**
 - Federal employees received a 2.7% average pay raise in 2022, allocating a 2.2% base pay and a 0.5% increase in locality pay from the previous year.¹⁵ The locality pay increase is estimated to cost about \$41 billion in 2022.¹⁶
 - There are significant differences in pay in different geographic areas across the country as a result of locality pay. Areas with the highest locality pay rates in 2022 are:¹⁷
 1. **San Jose-San Francisco-Oakland, CA** (42.74% locality pay rate). A hypothetical federal employee at a GS-12, Step 7 (generally representing about a three-year employment tenure) could make about \$116,991 in this locality pay area in 2022.
 2. **New York-Newark, NY-NJ-CT-PA** (35.06%). A hypothetical federal employee at a GS-12, Step 7 could make about \$110,697 in this locality pay area in 2022.
 3. **Houston-The Woodlands, TX** (33.96%). A hypothetical federal employee at a GS-12, Step 7 could make about \$109,795 in this locality pay area in 2022.
 4. **Los Angeles-Long Beach, CA** (33.61%). A hypothetical federal employee at a GS-12, Step 7 could make about \$109,508 in this locality pay area in 2022.
 5. **Washington-Baltimore-Arlington, DC-MD-VA-WV-PA** (31.53%). A hypothetical federal employee at a GS-12, Step 7 could make about \$107,803 in this locality pay area in 2022.
 - The “Rest of the U.S.” (16.2%) is the largest category and covers all federal employees that do not fall into one of the 53 other localities. A hypothetical federal employee at a GS-12, Step 7 could earn about \$95,239 – the lowest annual salary out of all their counterparts across the country – in this locality pay area in 2022.
 - The federal government justifies establishing higher locality pay rates for certain areas over others to offset a comparatively higher cost-of-living.¹⁸ However, locality pay’s design is flawed because certain areas with a low cost of living fall under a high locality pay area category, enabling federal bureaucrats to take advantage of the higher salaries. For example:
 - The Washington-Baltimore-Arlington (DC-MD-VA-WV-PA) category has the fifth highest locality pay rate in the country, spanning across Washington, D.C. and parts of four other states. Arlington County, VA and Hampshire County, WV are both included in the D.C. locality pay area.¹⁹ When comparing to an average U.S. cost of living index threshold of 100, it is far more expensive to live in Arlington, VA, which has a high cost of living index of 168.7, than it is to live in Hampshire County, WV, which has a low cost of living index of 86.2 and is about a 2.5-hour drive from D.C.).
 - Despite the disparities in cost of living, distance from the central city area, median income, housing costs, and other factors, bureaucrats in Hampshire County, WV are able to earn the same amount as their counterparts in Arlington County, VA (an annual salary of \$107,803 for GS-12, Step 7 employees in 2022), simply because they happen to be grouped in the same federal locality category.

POLICY SOLUTIONS

The United States is operating at 40-year high inflation rates and at the highest level of publicly held debt since the aftermath of World War II. Total wages and benefits for executive branch civilian workers cost about \$332 billion in 2022, an increase of \$65 billion from just six years prior.²⁰ The Biden Administration formalized a 4.6% pay rate increase for 2023 on August 31, 2022, the largest federal pay raise in 20 years.²¹ Implementing this

would raise base pay by 4.1%, allocating a locality pay rate increase by another 0.5%, respectively. Given the significant costs, as well as the federal government’s lack of trust in its own methodological merit, Congress should consider prohibiting locality pay rate increases for federal civilian employees. Congress should also continue to conduct oversight into agency practices for awarding locality pay percentages to employees conducting remote work outside of their designated worksite.²²

“In the current Federal white-collar pay system, performance does not matter very much...To be truly results-oriented, the Government would require a compensation system where performance truly makes a difference.”
 – OPM, 2002²³

APPENDIX

Table 1. Federal Locality Pay Areas
 As of January 2022

Alaska	Indianapolis-Carmel-Muncie, IN
Albany-Schenectady, NY-MA	Kansas City-Overland Park-Kansas City, MO-KS
Albuquerque-Santa Fe-Las Vegas, NM	Laredo, TX
Atlanta - Athens-Clarke County - Sandy Springs, GA-AL	Las Vegas-Henderson, NV-AZ
Austin-Round Rock, TX	Los Angeles-Long Beach, CA
Birmingham-Hoover-Talladega, AL	Miami-Fort Lauderdale-Port St. Lucie, FL
Boston-Worcester-Providence, MA-RI-NH-ME	Milwaukee-Racine-Waukesha, WI
Buffalo-Cheektowaga, NY	Minneapolis-St. Paul, MN-WI
Burlington-South Burlington, VT	New York-Newark, NY-NJ-CT-PA
Charlotte-Concord, NC-SC	Omaha-Council Bluffs-Fremont, NE-IA
Chicago-Naperville, IL-IN-WI	Palm Bay-Melbourne-Titusville, FL
Cincinnati-Wilmington-Maysville, OH-KY-IN	Philadelphia-Reading-Camden, PA-NJ-DE-MD
Cleveland-Akron-Canton, OH	Phoenix-Mesa-Scottsdale, AZ
Colorado Springs, CO	Pittsburgh-New Castle-Weirton, PA-OH-WV
Columbus-Marion-Zanesville, OH	Portland-Vancouver-Salem, OR-WA
Corpus Christi-Kingsville-Alice, TX	Raleigh-Durham-Chapel Hill, NC
Dallas-Fort Worth, TX-OK	Richmond, VA
Davenport-Moline, IA-IL	Sacramento-Roseville, CA-NV
Dayton-Springfield-Sidney, OH	San Antonio-New Braunfels-Pearsall, TX
Denver-Aurora, CO	San Diego-Carlsbad, CA
Des Moines-Ames-West Des Moines, IA	San Jose-San Francisco-Oakland, CA
Detroit-Warren-Ann Arbor, MI	Seattle-Tacoma, WA
Harrisburg-Lebanon, PA	St. Louis-St. Charles-Farmington, MO-IL
Hartford-West Hartford, CT-MA	Tucson-Nogales, AZ
Hawaii	Virginia Beach-Norfolk, VA-NC
Houston-The Woodlands, TX	Washington-Baltimore-Arlington, DC-MD-VA-WV-PA
Huntsville-Decatur-Albertville, AL	Rest of U.S. (RUS)

Source: 5 C.F.R. §531.603. RUS consists of those portions of the United States and its territories and possessions not located within another locality pay area.

Congressional Research Service²⁴

¹ <https://www.fedsmith.com/2021/09/29/where-federal-salary-is-37605-higher/>

² Federal Employees Pay Comparability Act (FEPCA) of 1990, Section 529 of P.L. 101-509.

³ <https://www.federalpay.org/>

⁴ <https://www.gao.gov/assets/gao-22-104580.pdf>

⁵ U.S. Office of Personnel Management Pay & Leave, General Schedule Overview, <https://www.opm.gov/policydata-oversight/pay-leave/pay-systems/general-schedule>. See also U.S. Office of Personnel Management Performance Management, Approaches to Calculating Performance-Based Cash Awards, <https://www.opm.gov/policy-data-oversight/performance-management/performance-managementcycle/rewarding/approaches-to-calculating-performance-based-cash-awards/>. See also <https://www.federalpay.org/>.

⁶ <https://crsreports.congress.gov/product/pdf/IF/IF11998>

⁷ <https://crsreports.congress.gov/product/pdf/R/R47033> and <https://ourpublicservice.org/wp-content/uploads/2002/04/ea4746e133b5f93e4f4086c873bd0bd9-1414080224.pdf>

⁸ <https://ourpublicservice.org/wp-content/uploads/2002/04/ea4746e133b5f93e4f4086c873bd0bd9-1414080224.pdf>. The Bureau of Labor Statistics (BLS) utilizes National Compensation Survey (NCS) data and occupational average salary data from Occupation Employment Statistics (OES) to estimate costs and earnings of private sector workers in a locality. The NCS/OES model then considers a variety of factors to predict an hourly wage (The NCS/OES model engages factors such as length of service, region, occupation, and grade of employees to predict an hourly wage), which is multiplied by 2,080 (40 hours a week for 52 weeks) to estimate annual earnings for a federal employee working a job at their grade level in a certain area.

⁹ 5 U.S.C. 5304 and <https://www.gao.gov/products/gao-22-104580>

¹⁰ <https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/federal-salary-council/recommendation18.pdf>

¹¹ <https://ourpublicservice.org/wp-content/uploads/2002/04/ea4746e133b5f93e4f4086c873bd0bd9-1414080224.pdf>

¹² <https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/pay-agent-reports/2020report.pdf>

¹³ <https://www.chcoc.gov/content/additional-guidance-post-reentry-personnel-policies-and-work-environment>

¹⁴ <https://www.fedweek.com/fedweek/gop-leaders-question-pay-rates-of-teleworking-federal-employees/>

¹⁵ <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/12/22/executive-order-on-adjustments-of-certain-rates-of-pay/>

¹⁶ <https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/pay-agent-reports/2020report.pdf>

¹⁷ <https://www.federalpay.org/gs/calculator> and <https://www.federalpay.org/gs/locality> and <https://www.federalpay.org/gs/2022>

¹⁸ <https://www.federalpay.org/gs/locality>

¹⁹ The cost of living index is based on a U.S. average threshold of 100. If an area's cost of living index exceeds 100, it is more expensive to live there compared to other places in the U.S. If an area's cost falls under 100, it is less costly to live there compared to other places in the U.S. Therefore, it cost a lot more to live in Arlington, VA (168.7) than in many other areas in the U.S., while Hampshire County, WV, is far less costly (86.2) to live in compared to many other places in the U.S. https://www.bestplaces.net/cost_of_living/city/virginia/arlington and https://www.bestplaces.net/cost_of_living/county/west_virginia/hampshire

²⁰ Budget of the U.S. Government, Fiscal Year 2023, Analytical Perspectives 86 <https://www.govinfo.gov/content/pkg/BUDGET-2023-PER/pdf/BUDGET-2023-PER.pdf>

²¹ Letter to the Speaker of the H <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/31/letter-to-the-speaker-of-the-house-of-representatives-and-the-president-of-the-senate-on-the-alternative-plan-for-pay-adjustments-for-civilian-federal-employees/>ouse of Representatives and the President of the Senate on the Alternative Plan for Pay Adjustments for Civilian Federal Employees - The White House

²² <https://republicans-oversight.house.gov/release/hice-the-federal-workforce-exists-to-serve-the-american-people/> and <https://www.fedweek.com/fedweek/gop-leaders-question-pay-rates-of-teleworking-federal-employees/>

²³ <https://ourpublicservice.org/wp-content/uploads/2002/04/ea4746e133b5f93e4f4086c873bd0bd9-1414080224.pdf>

²⁴ <https://crsreports.congress.gov/product/pdf/IF/IF11998>